

# DOUGLASISM

OR COMMUNISM?

S. W. SCOTT [Diploma of Social Science]

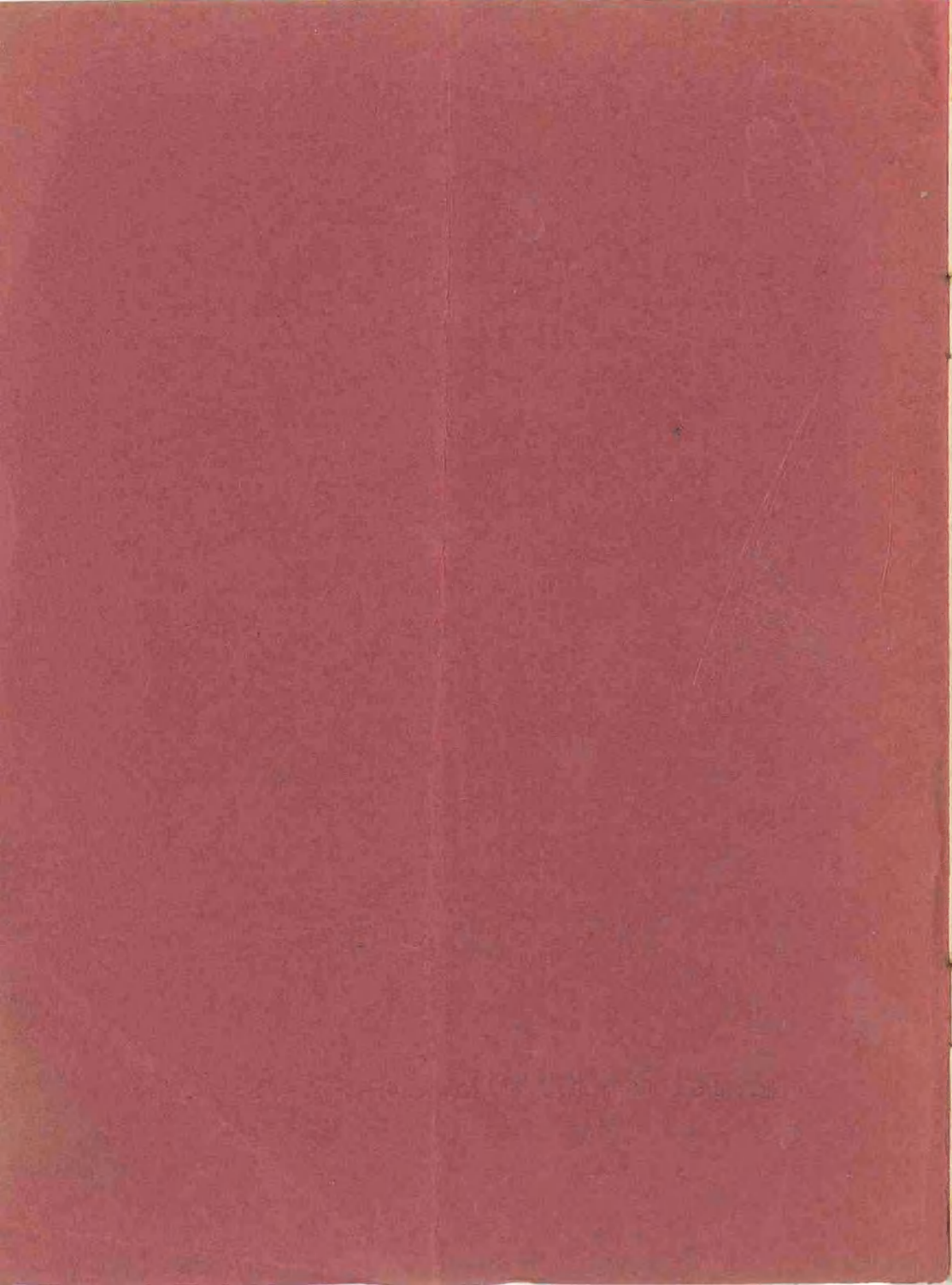
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“The ruling class  
will do everything for the workers  
except get off their backs”<sup>1</sup>

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PRICE TWOPENCE

Issued by the N.Z. Communist Party



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Issued by the N.Z. Communist Party

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# DOUGLASS

FOR THE PEOPLE

W. W. SCOTT [Publisher of the 1st Edition]

The first class  
of the country  
is the backbone  
of the nation

Edited by the M. E. Commemorative Party

Published by the M. E. Commemorative Party



# Douglasism or Communism?

**T**HE FIFTH YEAR of the world economic crisis is approaching. Even before the Wall Street crash precipitated capitalism into the abyss, the world was sliding into economic chaos. September 1929 saw only an accentuation of the process which already had caused unemployment and business ruin on a large scale. In England, for example, we find that while *"in the period 1850-1914 unemployment only reached ten per cent on three occasions, since 1920 it has never fallen below that figure for more than a few months."* So, too, during the post-war boom when "America the Golden" was the theme of hymns of praise from capitalism's defenders, there were two million unemployed workers in the U.S.A., a figure which nine months before the Wall Street crash had risen to 3.4 millions.

In New Zealand, too, these conditions were reflected and unemployment was a notable feature as far back as 1926 (and even earlier) while in 1928 unemployed demonstrations were made to Parliament House in Wellington. On top of this permanent post-war crisis came the special, the cyclical crisis as it is called, which commenced toward the end of 1929. Since then unemployment has increased to close on 100,000 unemployed workers—men, women and youths.

Desperate wage cuts have been made in an effort to save the situation at the expense of the workers. Two general cuts of ten per cent have been made on all industrial and Government employees, while wages for youths, farm labourers, domestic servants and unorganised workers in general, have fallen to unheard of levels. Thousands of boys and girls are totally unable to find work at any wage whatsoever, while education grants have been drastically reduced and teachers' training colleges closed. Health officers report that malnutrition is alarmingly prevalent amongst school children while adult suicides have increased considerably.

The physical well-being of the workers has been endangered. Public hospital treatment has increased between 1924 and 1931 from 29 per thousand of the population to 59½ per thousand.\* At the same time drastic economies have been introduced in hospital treatment to the detriment of the patient.

Bankruptcy and ruin face the working farmers who are in some respects even worse off than the unemployed (relief) workers in the towns.

There is no need to dwell further on the results of the economic crisis nor need we stop to give figures which continually alter for the worse. There is hardly a family in New Zealand belonging to the working class or lower middle strata which is not acutely affected by this terrible economic disaster. Well might Sir James Parr, speaking in the Legislative Council, say despairingly of unemployment "... one cannot enter into a discussion without realising how impotent we (i.e. the Government) are to effect a complete cure of unemployment. I am the first to admit that this Bill is only a partial treatment of the case ..." and after asking himself what is the cure he felt compelled to answer, "There is none." (*Hansard* 14/4/32)

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\* New Zealand Year Book, 1933.



Thank you, Sir James, for your frankness.

All the Government remedies have failed and must fail. Economic councils have met in vain. Pacts have been made—and broken. Exchange rates have been raised—and lowered. Countries have gone on and off the gold standard. Production has been increased—and has failed to find a market. Inflation and deflation alike have brought misery to the masses of the people. The Governments of the capitalist world have failed.

#### WHY HAS CAPITALISM FAILED?

"Only a dwindling number of people now believe that the depression is merely part of an ordinary trade cycle, more severe than others which have preceded it"—*London Times leader*, 13/6/32.

Explanations of economic crises are as common as blackberries. Professor Wesley Mitchell (Director of the National Bureau of Economic Research, U.S.A.) analyses about twenty such theories.\* These may be divided into two groups.

(1) *Those theories which hold that capitalist economy is essentially sound and merely needs some internal adjustment.* In this group are to be found the various *currency schemes of which Douglasism is a mere sub-variety*.\*\* This theory, so lightly dismissed by Professor Mitchell as being a new song to an old tune, has however made something of a stir in New Zealand and Australia. We are apparently a simple people and easily taken in by the extravagant promises that, while retaining the essential features of capitalism, Douglasism will give bountifully to all those who suffer under the present social conditions. Presently it will be our task to examine the Douglas proposals and ascertain if they are sound and honest, but before that we must briefly discuss the real cause of the crisis, as proven by economic analysis, by history and by plain working class experience.

(2) *The theories which find the cause of the crisis in the very heart of capitalist economy, in the relations which exist between the economic classes and therefore treat the problem as incapable of a solution while capitalism lasts.* The only theory of this type which is now widely held and the only one, indeed, ever satisfactorily expounded is

#### THE MARXIAN (COMMUNIST) THEORY OF CRISIS

The Communist starts his analysis of society from the fact that society is divided into economic classes.

*"Of the many differences which divide society . . . the most important tending to transcend them all is the difference of class.* This arises from the fact that ownership of economic property and with it access to the commanding positions, the most lucrative professions and the choicest opportunities is in the main confined to, or monopolised by, a minority of the population, and as a result the

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\* Business Cycles. The Problem and its Setting.

\*\* Professor Mitchell relegates it to a five-line footnote simply saying, "The theory expounded by Major Douglas of the Royal Air Force seems to be an adumbration of the ideas worked out by the Pollak Foundation group and by Mr P. W. Martin."



majority, shut out from such opportunities and from the instruments of production (save in a few quite special cases) have no choice but to work for the favoured class for a wage which leaves a surplus to accrue to the favoured monopolists. Hence the compulsion of the "free labourer," under such circumstances, to work for a master—the economic compulsion of absence of other opportunities of livelihood—only differs in form and degree from the compulsion of the serf or the slave to work for his lord; and the master class owes its superior fortune as much to exploitation as did the monopolised by, a minority of the population, and as a result the feudal nobility or slave-owning aristocracy to the surplus labour of serf and slave." \*

What follows then from this position? Simply that the class which owns nothing but its power to labour whether by hand or brain—the working class—receives in return for its labour nothing but the cost of keeping them alive in bodily and mental health and in normal times sufficient extra to allow them to rear a family after their own kind (Labour scarcity in boom times and labour surplus in times of slump will cause fluctuation this way or that but on the average this generalisation is true.\*\*

Over and above this wage payment, all the value added by the worker is appropriated by the capitalist. And no matter how great the increase in the productivity of the working class may be, still it only receives the cost of its labour power—i.e. wages. But when the capitalist first receives this surplus it is in the shape of the things produced by the workers. In this form it is of little use to the capitalist. What he wants is not a factory stocked with goods but *money* by which he may increase his power of exploiting the workers and may provide for his own wants and luxuries. *Consequently the capitalist must sell his goods at a profit. Here the trouble begins.* For he finds himself in competition with other capitalists, all just as anxious to sell as many commodities as they can, at the maximum profit.

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\* Maurice Dobb M.A. Lecturer in Economics at the University of Manchester in *Russian Economic Development*.

\*\* Another aspect of this "anarchy of production" is to be found in the unequal development of various industries—a fact which constitutes one of the main causes of crises. Marx divides industry into two main groups: those producing further means of production and those producing means of final consumption. Take the boot industry and its attendant industries, for example: the industries producing bootmaking machinery develop so quickly that they produce a surplus of the necessary machines. They cannot sell at a profit so they close down or reduce production. The consequent unemployment reduces the demand for boots: this still further reduces the demand for boot machinery and so on. This is known as a "relative crisis" but a "general" crisis in the boot industry might arise from anything which reduced the profits of the boot manufacturer himself. His production stoppage would directly affect the boot machinery industry and through the unemployed workers in both industries might even produce a general depression throughout industry.



All try to grab the biggest share of the market they can. This is what is known by Communists as "the anarchy of production" and its effects are illustrated by the gluts of coffee in Brazil, the destruction of every third row of cotton in the U.S.A., and the burning of wheat in the same country. In New Zealand fish is dumped out at sea because it can't be sold at a profit, frozen meat suffers the same fate while potatoes rot and are dumped aside in the Pukekohe district.

Lastly, we must remember that profit is the sole object of capitalist production and that there will be a continual attempt to squeeze more and more from the workers in the process of production. This is done by two methods of increasing the productivity of the workers and (particularly in bad times) of endeavouring to force their wages down to the barest existence level. The former process increases the surplus of goods to be disposed of and so does the latter. The workers, however, constituting the overwhelming majority of the population as they do, are the chief consumers. Hence, it is harder than ever to sell the surplus goods at a profit. This is the vicious circle in which the capitalist world moves to-day. Wage cuts diminish the available market: this *tends* to reduce profits so wages are cut still more and so on.

*All these causes spring from the fundamental one of class monopoly of the means of production and the consequent production for private profit. This is to be held firmly in mind when considering*

#### THE DOUGLAS EXPLANATION OF THE CRISIS

Let the Douglasites speak for themselves. In the second issue of *The New World—Social Credit News* published in Auckland June 14th 1933 under the title, "What are the Douglas Proposals?" appears the following:

"What is the main trouble with the world? An inability to buy the great wealth it produces . . . What is the reason for this? One reason is the introduction of machinery. Machine power gives us a great capacity to produce but the resultant unemployment makes it increasingly impossible to buy the wealth produced . . . The second reason why there is not enough money to buy the goods produced is because the banks keep the money in short supply."

All this is summed up by Colonel S. J. E. Closey in an outline of the Douglas Credit policy published in the second issue of *N.Z. Fortnightly Review* as follows:

The peculiar theme of the Douglas theory is that this lack of purchasing power is the cause of the depression and not its effect and is in fact caused by the faulty operation of our monetary system.

Let us consider this contention first and the machinery argument later. This brings us to the essence of Douglas economics, the A plus B Theorem, upon which it stands or falls.

Major Douglas starts his analysis with the individual firm and divides its financial payments as follows:

Group A—All payments made to individuals, i.e., wages, salaries, dividends.



Group B—All payments made to organisations, i.e. raw materials, bank charges and other external costs.

Take an imaginary factory argues Douglas, let us say a boot factory. Its "A" costs are £500: its "B" costs are also £500. The price of the commodity must of necessity be equal to A plus B, i.e. £500 plus £500 equals £1000. But, says Douglas, the only money to buy back this £1000 of boots is the £500 worth of money paid as "A" costs. Here says this wizard, is the yawning gap, the source of shortage of purchasing power, the cause of over-production, of unemployment, in a word, this explains the economic crisis

How then can the gap be bridged?

Simply, says Douglas, by a central authority issuing to consumers, money equal to the "B" payments. (How and by whom this will be done Douglasites don't agree but they are all convinced that it would be a jolly good idea). There are refinements of Douglas theory—the alleged part played by bank credits and the so-called rate of flow of "B" payments, but in the meantime we will examine the central idea as just set out.

To begin with, is the division into payments to individuals and payments to organisations a sound and useful classification; and does it show the source of the alleged shortage of purchasing power? Obviously not! For workers' wages, company dividends, millionaires' profits are all lumped together in the one category. John D. Rockefeller with all his millions per year in dividends certainly does not use all his power to purchase consumption commodities but, like all such persons, inevitably saves or re-invests the larger portion of his income. On the other hand, we find that payment for raw materials ("B" costs) provides (in our imaginary boot factory) wages for workers and hence purchasing power. The repayment to the bank also has the effect of providing purchasing power to the bank staff and to bank shareholders.

The point to be noted here, is that, according to Douglas, some of the "B" payments *are* purchasing power and some of the "A" payments are *never used* as purchasing power. But let us look at our boot factory again. It produces boots priced at £1000, while the factory wages, salaries and dividends only amount to £500. How can £500 buy back £1000? The answer is: it doesn't have to. For there are more people who wear boots than make boots. There are, for instance, tanners and bank clerks, leather manufacturers and bankers. But put this to the test in another way. Let this boot factory amalgamate with the tannery or, as sometimes happens, let the bank take over both businesses. What were previously outside, or "B" payments (leather and bank charges in this example), are now inside, or "A" payments (wages, salaries and dividends). So now we obviously have £500 plus £500 equals £1000 "A" payments to buy back the £1000 of boots. But it must also be evident that this purchasing power would be there whether there was an amalgamation or not.

The fundamental *cause of shortage* in the Douglas analysis is thus shown to be no cause at all. But the Major introduces a refinement to rescue, if possible, his so-called A plus B theorem. It is not, he says, so much the quantity as the "rate of flow" that counts. By this he means that payments



for raw materials are made and "dispersed" BEFORE the commodity is put on the market. But here once again, Major Douglas draws upon his imagination, for in reality, raw materials are rarely paid for until the finished product is on the market. Hence the raw materials payments ("B") are available AT THE TIME needed. And, on the contrary, some "A" payments (dividends, etc.) *may be saved*—not used as purchasing power. So much for the rate of flow argument.

One thing more before we leave the solemn nonsense of A plus B. Raw materials are often financed by bank overdrafts and here a further complication is dragged in by Douglas—though its effect is to sully the alleged mathematical exactness of the "Theorem." When the bank overdraft is repaid, it is cancelled and by this act, says Douglas, credit is destroyed and a corresponding deficiency of purchasing power is created. You pay your money and take your choice between various expositions of the A plus B theorem but this last is as foolish as the rest of them. For, to begin with, the overdraft has done its work when it is cancelled. It has financed the raw materials (e.g. leather) and here, as we saw, has provided the power (less bank charges) to purchase the finished commodity (in this case, boots). Bank charges form part of the bank's income and hence go as salaries or profits (i.e. purchasing power) to employees and shareholders.

Furthermore, the cancellation through repayment of one overdraft allows another to be issued and banks make their profits largely through interest charges on overdraft. Hence banks will always lend money providing they can observe the condition sacred to *all* capitalist enterprises whatsoever—the realisation of a profit and this condition is just as sacred to Major Douglas, Captain Rushworth and Colonel Closey as to Kuhn Loeb, Sir Otto Niemeyer and J. P. Morgan.

So much for the theoretical shortcomings of A plus B but there are one or two general criticisms of the "inability to repurchase" argument that may be mentioned.

(1) In actual fact, there is more money in circulation now (1933) than before the crisis. For example, the coin and cash balances in the Bank of New Zealand have been increased by nearly a million pounds in the last year while the note issue increased by £276,000. More than this, the overdraft rate is lower than *it has been since the war*.

(2) An examination of the figures for the distribution of income will show that there is no *general* shortage of purchasing power in New Zealand. There are 23 persons with over £50,000 per year income, there are eleven persons who divide £3,062,525 per annum between them\* while 154 persons own 12 per cent of the National income.

(3) A glance at the *N.Z. Stock Exchange Gazette* or the financial columns of your newspaper will also prove interesting. You will find that the more important capitalist enterprises are doing very well indeed. While gross profits have sometimes decreased,

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\* *N.Z. Year Book* 1933.



expenses (wages, etc.) have declined still more leaving net profits greater than before. N.Z. Paper Mills Ltd, Kaitangata Coal, Co.\* gas companies, and sugar refineries pay big dividends, despite watered stock (bonus shares, etc.)

All facts show that the world does not suffer from lack of money, of credit, or purchasing power but that while this exists in plenty it is withheld owing to the class nature of that capitalist system which Douglasism openly upholds. "The one part of the banking system of which I approve" says Douglas, in *Warning Democracy*, "is bank dividends"—profit. It would, in fact, be strange if the Major did *not* approve of profit.

#### IS MACHINERY THE CAUSE OF CRISIS?

The douglasite *New World* in placing machinery as a *primary* cause of unemployment is closing its eyes to plain facts. Not machinery but *the ownership of machinery by capitalists who compete for profit*—this, indeed, is a contributory cause of unemployment. Under the workers' rule in Soviet Russia, machinery is being introduced at a rate hitherto unparalleled in history. Whole industries have been built up to produce machines never previously made or used in Russia. The Five Year Plan for the mechanisation of industry was successfully carried out in 4½ years. Agriculture has been transformed from a primitive stage where wooden ploughs were used, to large scale farming based on the use of multi-furrow ploughs drawn by tractors.

And yet, despite the rate of machinery introduction, unemployment has been abolished in the Soviet Union. Turn and twist as you will, friend Douglasite, this is undeniable fact. Across the border, in capitalist Poland and India and Roumania, unemployment grows and poverty deepens. In workers' Russia the average real wage increased by 67 per cent. in the 4½ years October 1928 to December 1932 yet the length of the working day has decreased to seven hours and is still declining. In the next five year period consumption goods are to increase threefold and the *six hour day* will become general. Owning industry collectively, as they do, the workers produce primarily for use and not for profit. Production is planned and the workers as a class appropriate the full fruits of their labour.

We have now shown that the Douglas explanation of the crisis is wrong and *the analysis of the cause being wrong the suggested cure is also wrong.*

If the purchasing power does not exist but is "frozen" owing to the class basis of society (remember the 154 people who own 12 per cent of N.Z.'s income) then the remedy is to abolish the class basis of society) But Major Douglas says, "The crisis . . . is *not* . . . a quarrel between the haves and the have-nots. It is not a class problem. It is not the capitalistic system . . . that is the trouble."\*\* His New Zealand disciples echo this belief. "*Much twaddle is talked by workers about the huge robbery of the worker by the employers,*" says Mr A. E. Robinson in *Farming First* of 10/2/33.

Here then is the cleavage. Working class viewpoint or capitalist? Major

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\* See June issue, *N.Z. Stock Exchange Gazette*.

\*\* Address at Newcastle-on-Tyne, October 7th, 1932.

## Douglas or Karl Marx?

It is unnecessary, therefore, to follow Douglas up the garden paths of currency reform. How the national dividend would, despite the frantic denials of Douglasites, lead inevitably (were it ever tried!) to disastrous inflation under which the workers would suffer the hell of high prices and worthless wages, we shall not discuss.\* Our contention is that the Douglas proposals will never be attempted; that they are simply a collection of demagogic slogans which operate only to *distract the attention of the workers* from the stern realities of the day to day struggle.

From this point onwards we shall confine ourselves to the political significance of Douglasism—its actual, as distinct from its imagined, function in the struggle of the classes and its contrast to the Communist method of solving the social problem.

## WHITHER DOUGLAS?

We started our analysis of society with the proposition that existing society is divided into economic classes. We shall stress that proposition and finish with it, for it is a fundamental part of our case.

The New Zealand Douglas Credit Association promises Utopia without effort. It airily lavishes National Dividends (c.f. *New World*, June 14th) which rejoice the mind of the ruined business man, the farmer with a mortgage, the worker without a job. "In a few weeks" chants a pioneer Douglasite "the miracle would begin to work and mankind would commence a new era and step over the threshold into a new world."\*\*\*

How beautifully easy this sounds. Can we wonder that the bait is taken by the politically inexperienced, unable to read the lessons offered by the rise of Hitlerism in Germany and Fascism in Italy?\*\*\*\* For there, too, similar facile promises were made and swallowed by similar classes of people. Currency Reform, Money For All, Down with the Banks, no class struggle, everything for everybody by Hitler's painless process\*\*\*\*\* And now, in Germany, reality—the banks religiously respected, less money for the workers than ever, suppression of all workers' organisations, the bludgeon, the bullet, and the gallows—in a word

## FASCISM!

Will this develop from Douglasism? It may well be so. Captain Rushworth, Colonel Closey, General Richardson, Major Douglas himself—Military men all, mark you. True these men are not necessarily conscious Fascists. Yet where do their expressed opinions lead? "Give me 200 men with machine guns and I'll settle the problems of New Zealand in 24 hours"

\* Mr Lloyd Ross, in his excellent critical pamphlet *Tickets Without Goods*, has dealt at length with this aspect of the problem.

\*\* Mr A. E. Robinson, secretary, Auckland Farmers' Union, in *Farming First*, 10/2/33.

\*\*\* See *Hitler* by Wyndham Lewis ("Loan capital is the enemy of enemies, etc.)

\*\*\*\* *New World* June 14th.



Colonel Closey is reported to have said. "If the Central Bank Bill is passed it means plunging the country into civil war. . . Give me liberty or give me death"—thus Captain Rushworth at the Avondale Town Hall. True, again, there are rank and file supporters of Douglas who innocently imagine that the National Dividend is a workable proposition which could be introduced as easily as a new fashion in hats. But that is because Douglas has persuaded them that social misery is due not to class exploitation but to a "vast error in book-keeping."\* It is hardly conceivable that the leaders of Douglasism believe this ingenious nonsense. The two speeches recorded leave little room for doubt on that score.

What then is the actual effect of Douglas Association propaganda? First (and in this lies its real danger) it diverts the workers from the realities of the day to day struggle.

A little more wages *now*.

Non-contributory social insurance *now*.

Cancellation of working farmers' mortgages *now*.

Trade Union rates or sustenance for the unemployed *now*.

Better conditions on country relief works—*now*.

On the basis of these demands and similar everyday needs of the *useful* masses the Communist Party throws itself into the struggle of the classes.

Where does the Douglas Association stand? In smug aloofness, sibilantly murmuring soporific phrases: *Just Price, National Dividend, A cannot equal A plus B*.

And just because the Douglasites are not linked with the masses by participation in their struggle for immediate demands, just because they think they are "above class," so surely will they be forced to base themselves (as did Hitler and Mussolini) on the ruined or discontented elements of the lower middle class and unemployed professional people. These are the petty bourgeoisie whose training and class prejudices make them alien to working class solidarity. And just by so much will they be closer to the Fascist position.

But, at the same time, just as surely will the workers, resisting the growing encroachments of the capitalists upon their living conditions, be forced to realise that *only* working class organisation, preparation to take over industry and form a workers' state with real political activity for all who labour, can prevent the horrors of Fascism and War.

To carry the struggle through, to unify and direct the activities of the workers, a disciplined revolutionary party is necessary. As Capitalism decays and the crisis deepens, more acute will be the attack on the masses (both on their living standards and on their political rights) and the more urgent becomes the building of a Workers' Party. Not a junta of trade union secretaries and aspiring parliamentarians without any coherent programme, but a mass party which knows what it wants, composed of persons who

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\* See *Building the Fascist State* by Professor Schneider, and compare the Hitler promise (before they took power) "Close down the private banks . . . release credits . . . and the most colossally Golden Age of any yet will be upon us."—Lewis Hitler.



are part of the mass in factory or on farm and linked to the masses by contact in bread and butter struggles.

It *must* be done.

And when attack and counter-attack develop where will the Rushworths and the Closeys stand? The profit system (i.e. their system) is threatened. The issue becomes plain. Capitalism or Communism? Can we doubt their choice? Or, if they falter, can we doubt that (as ever before in history) the necessary leader will arise,\* born of the situation, and usurp their place—sweeping the followers of Douglas in his wake, drawing them into action as Hitler and Mussolini drew their respective dupes.

And when the smoke-screen has cleared, the grinning skull of Fascism will dominate the scene.

Capitalism is declining, dying, but it's fighting every inch of the way. From a clash, such as predicted by Captain Rushworth, there are only two possible results: the setting up of a workers' dictatorship or the strengthening of the present capitalist dictatorship. If the workers, conscious of their position as an exploited class, are organised for struggle, then it will be the former. If the Douglas and kindred movements can sufficiently obscure the issue and so act, consciously or unconsciously, as a breeding-ground for Fascism, then black indeed is the outlook for the workers.

## THE TWO WORLDS

Two worlds exist, side by side—the Soviet world and the Capitalist world. In the former the workers are going from victory to victory, from strength to strength. Themselves owning and controlling industry, its fruits are theirs. Every new invention, every increase in productive power, means new wealth for the workers. Production is carried on for use and not for profit. Unemployment and insecurity are abolished while a virile culture springs from the fertile soil of socialist co-operation.

The Capitalist world we know but too well. Decline, desperation, corruption and despair. A world rent by never ceasing struggle between exploiters and exploited. A world in which once again nations armed to the teeth are preparing to solve the question of economic supremacy by the final arbiter—WAR.

We are witnessing world-preparations for a final grand assault upon the working classes. The Soviet Union itself is in imminent danger of attack. The issue deepens, the rumble of the war chariots becomes louder. Social strata are crystalising. Labourism, currency reform, Douglas credit. Soon these must gravitate to one side or the other.

Those who are not with us are against us.

Fascism or Communism? There is no middle path.

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\* In this country the N.Z. Legion may fulfil this function. One Douglas leader has stated that the Legion can be relied upon to enforce the Douglas proposals. Since that statement, the Legion (which has applied for permission to arm against the "Communists," i.e. all militant workers) has come out with a programme (currency control, etc.) essentially identical with the Douglas programme—and with Mussolini's.



